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SUBJECT: NEPAL'S PREPARATIONS FOR WTO WORKING PARTY MEETING

REF: STATE 164046

SUMMARY

11. (SBU) Upcoming general elections on November 13 do not seem to have impeded preparations by the Government of Nepal (GON) for its second Working Party meeting on accession to the WTO September 12. Accession to the WTO has broad, multipartisan support, and the process is unlikely to be negatively affected by a change in government. GON interlocutors have signaled some openness to considering further revisions to the services offer. The delegation's greatest concern is that the USG and governments of other developed countries provide necessary and adequate technical assistance, particularly in relation to TRIPS requirements. End summary.

GON PREPARATIONS

12. (U) On July 27 the Ministry of Commerce hosted a briefing for the diplomatic community on Government of Nepal (GON) preparations for the second Working Party meeting on accession to the WTO, to be held in Geneva September 12. Commerce Minister Purna Bahadur Khadka, who will head the delegation, assured attendees of his government's commitment to bring its trade regime into conformity with WTO standards, and asked that attendees' governments support Nepal's bid to enter WTO. Commerce Ministry Joint Secretary Prachanda Man Shrestha also provided a brief overview of the GON's revised market access offers for goods and services since the first Working Party meeting in 2000. Both presentations highlighted GON expectations that the "good will" of developed countries--i.e., a recognition of Nepal's limitations and constraints as an LDC--will be a significant factor in the upcoming Working Party meeting.

13. (SBU) In a September 2 meeting with emboff, Shrestha asserted that the GON's revised offer on tariffs, which he said average about 40 percent for agricultural products and about 30 percent for non-agricultural, are well below those of other South Asian countries. He acknowledged the assessment of surcharges on the tariffs--as much as 4.5 percent for non-agricultural products--which he described as local development and security fees. Agricultural products, which face an added agricultural development fee, are assessed surcharges of as much as 9.5 percent.

14. (SBU) Shrestha argued that the GON had substantially broadened its offer of market access for services from no more than three in 2000 to eleven sectors and sub-sectors in 2002. Emboff asked why the GON had not opened up more financial services in the revised offer. Shrestha replied that the GON--in particular the Central Bank--has not yet fully assessed the possible effect that inviting broader foreign participation in the banking sector could have on Nepal's economy and modest foreign exchange reserves. The Central Bank is particularly leery of opening up banking to foreign investment, he said. Discussions on the margins of WP2 between members of the USG delegation and the GON's Central Bank representative regarding these concerns would be helpful, he agreed. Much of the GON's worry regarding opening up the financial sector focuses on India, he confided, rather than on other potential foreign investors. Some quarters in the GON fear that liberalizing market access in the financial sector would result in the small Nepali market being swamped and completely dominated by Indian investors. If there is genuine, specific American interest in Nepal's modest market, Shrestha indicated, the GON delegation would welcome further discussion of possible revisions to its services market access offer with the USG delegation.

GON NEEDS

15. (SBU) Shrestha said the GON's greatest concern in embarking on WP2 is that it receive adequate technical assistance from developed nations to meet its requirements under WTO. Of special concern is the GON's ability to comply with TRIPS obligations, he noted, an area in which the GON has no expertise. During the first Working Party in 2000, the GON received numerous pledges of technical assistance from various countries (Shrestha says the USG had specifically committed to provide assistance in customs valuation), but so far not one country has delivered.

USG AID TO DATE

16. (SBU) The USAID Mission in Nepal has agreed to fund travel and per diem for a U.S. Customs assessment team to review GON requirements for customs valuation assistance. The Mission's Economic Growth program is closing out at the end of this fiscal year, however, and it is uncertain if USAID Nepal will thus be able to provide follow-on funding for any actual training or equipment.

POLITICAL CLIMATE

17. (SBU) Prime Minister Sher Bahadur Deuba asked the King to dissolve Parliament May 22 and call mid-term elections for November 13. Deuba remains in power, along with most of his original Cabinet, until then. Because Maoist insurgents, who have been waging a six-year effort to overthrow Nepal's constitutional monarchy, are expected to attempt to disrupt the elections, the polling may be conducted in phases in various parts of the country, elongating the election schedule considerably. The new Cabinet and Parliament may thus not be in place before January. Accession to WTO enjoys broad, multipartisan support from all but a very few small, politically insignificant parties. The largest Opposition party, the Communist Party of Nepal - United Marxist Leninist (UML) was the first political party to endorse publicly Nepal's efforts to accede to WTO. None of the likely (and even not-so-likely) winners of the November election is expected to repudiate previous commitments made during the Working Party meeting or to reverse position on accession to WTO.

COMMENT

18. (SBU) The upcoming elections have not seemed to hinder GON preparations for WP2. WTO accession is not controversial in Nepal and unlikely to become an election issue. The Commerce Ministry's emphasis on anticipated "good-will" concessions in view of Nepal's status as an LDC and its framing of tariff rates in a regional, rather than global context, make it seem unlikely that the GON will offer a more significant reduction in tariffs. There does seem to be latitude for further bilateral discussion of market access for services. The GON will almost certainly raise its understanding of previous USG offers to provide Nepal with customs valuation assistance. We recommend that the USG formally commit to offer such assistance.

MALINOWSKI